swap. So for a small amount of money, they buy an insurance policy against the bonds defaulting. It is a relatively recent phenomenon where all of this has been created.

Normally speaking, if someone issued bonds, the other people bought the bonds and they did due diligence on the other side to decide if this is a good risk, and that is the way it worked. Now they buy insurance called credit default swaps.

The difficulty is credit default swaps are now called naked credit default swaps if, in fact, they have no insurable interest at all. That is a credit default swap that bets that someone who issued bonds is going to default, despite the fact that neither party to this transaction ever has purchased any of those bonds. They don't have an insurable interest in the bonds; they just made a bet. They have said: We have not bought those bonds over there. But those bonds were issued, and we would like to make a wager. We think those bonds are probably going to default. Someone else says: I don't think they will. So you have a naked credit default swap with no insurable interest in anything.

Why is that troublesome? Well, I can't buy fire insurance on the house of the Presiding Officer in Alaska. Why would they not allow me to buy fire insurance on his house? Because I don't have an interest in his house, and they don't want about 10 or 15 people having a fire insurance policy on his house. The only way you can get fire insurance is if you have an insurable interest. I can't buy a life insurance policy on someone else's life because I don't have an insurable interest.

Those are rules most of us understand. You can't buy fire insurance against somebody else's house; you can't buy a life insurance policy against somebody else's life. But Wall Street has discovered there is a new way to allow someone to buy insurance policies or speculate in certain kinds of insurance without ever having an interest; that is, allowing two parties to speculate on whether a third party might default on a bond issue they placed with a fourth party, despite the fact that the first two parties have no interest in that at all. It is just as if they went to Las Vegas and one bet on red and the other bet against red on the roulette wheel. It is just a flatout bet. It is not an investment; it is just a bet.

Let me talk about how prevalent this is, just because I think it is important. There was about $10.9 trillion in naked credit default swaps held by commercial banks in the fourth quarter of last year; $10.9 trillion held by commercial banks. Those are institutions, by the way, whose deposits are insured by us, by the American taxpayer, by the FDIC. Up to $19.9 trillion of naked credit default swaps are held by the top 25 holding companies.

It is estimated by one expert that as much as 80 percent of the credit default swap market is traded by firms that don't own the underlying debt. There is also a United Kingdom report shared by the Congressional Research Service that says only 20 percent of the credit default swaps are estimated to be covered. That means 80 percent of all of this paper that is put out there in credit default swaps is so-called naked. It has no insurable interest. It is a bet rather than an investment.

Let me just show what some of the experts are saying about this. One of the editors of the Financial Times says: I can't understand why we are still allowing the trade in credit default swaps—he meant naked swaps—without ownership of the underlying securities. A generalized ban on so-called naked CDS's should be a no-brainer.

It ought to be a no-brainer. It is not a no-brainer in this Chamber, apparently. A naked CDS purchase means someone takes out insurance on bonds without actually owning them. It is a purely speculative gamble. There is not one social or economic benefit.

My amendment is trying to shut this down, but I am being blocked by those who don't want us to get tough on Wall Street.

Charlie Munger, who is the partner of Warren Buffett and who has spoken a lot about these issues, said:

> If I were the governor of the world I would eliminate credit default swaps entirely, 100 percent. That's the best solution. It isn't as though the economic world didn't function quite well without it and it isn't as though what has happened has been so wonderfully desirable that we should logically want more of it.

Do we need to go to the edge of a cliff again with this economy, with tens of trillions of dollars of notional value of credit default swaps before we decide this is a problem for our country and for our future?

Again, the associated editor of the Financial Times:

> Another argument I have heard from a lobbyist is that naked CDS's allow investors to hedge more effectively. That is like saying that a bank robbery brings benefits to the robber.

Well, I guess so.

George Soros, a pretty good investor I might say, made $3 billion last year, I am told in the reports:

> CDS's are toxic instruments whose use ought to be strictly regulated: Only those who own the underlying bonds ought to be allowed to buy them.

Well, those are a few thoughts from some people of consequence: editor of the Financial Times, Charlie Munger; George Soros; and others. But it describes a very significant problem. It describes, in my judgment, a fairly large portion of what caused this country's economy to teeter on the edge of a cliff.

The Treasury Secretary one day comes and leans across a lectern on a Friday and says to us: You need to ante up $700 billion and pass a three-page bill in 3 days or the economy might collapse. Now, a year and a half has passed, a little more, and some, I think, have too quickly forgotten the lessons.

So the question is, Are we going to do something about naked credit default swaps, about the unbelievable orgy of speculation, the bubble of speculation that exists to the tune of tens of trillions of dollars?

Let me read it again:

> Up to $10.9 trillion in naked credit default swaps were held by commercial banks in this country in the fourth quarter of 2009.

I am talking about up to $10.9 trillion of naked credit default swaps in the bowels of commercial banks. These are institutions that we guarantee, we underwrite.

I don't understand at all the notion that we should be prevented from addressing this issue. It may be that we have people here willing to shake the pompoms and be cheerleaders for naked credit default swaps. Good for you, if that is the way you feel. It is just you have missed a significant chapter of American financial history. But if you feel that way, vote against my legislation. My legislation would ban the use of naked credit default swaps.

> After the phase-in period, they are gone. If you don't have an insurable interest, they are gone. It is a simple enough proposition to say: Why should we have 5 or 10 times the number of insurance policies against bonds than there are bonds to insure? Why should we allow that? We don't allow it in other circumstances.

I understand the offering of this amendment and the shutting down of naked credit default swaps will cost Wall Street a substantial amount of money. They will not get fees on these things. I understand that. This is all about churning and getting fees and making a lot of money. I understand all that. I also understand sometimes this notion of making a lot of money in a short period of time by cutting corners and by doing things that aren't appropriate is the wrong thing.

My colleagues know and I know that we saw banks being robbed in this country. Yes, we saw banks being robbed in the last several years. In the old days, when I used to watch the western movies, you could tell who the bank robber was. They usually had a bandana, they brandished a couple of six-guns. Often they stopped a train or they ran into a bank, and that is the way they robbed things.

In the last several years, there have been some bank robberies going on in this country, and I can refer you to a lot of contemporary writing that describes the way those banks were robbed. Two people driving home from work, each making $20 million, one supervising the other in one of the biggest investment banks, loading that bank up with unbelievably risky investments because they know at the end of the day, somebody is going to lean over a lectern and say: Oh, by the way, we need to bail all these folks out.

The folks who went to the basement of the Securities and Exchange Commission, I believe, in the year 2004—